Before the Federal Communications Commission Washington, D.C. 20554

In the Matter of:)	
)	
Digital Output Protection Technology)	MB Docket 04-62
And Recording Method Certifications)	
)	
CPRM-Video)	

REPLY OF 4C ENTITY, LLC SUPPORTING CERTIFICATION OF CPRM-VIDEO

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Summary

In reply to the Response filed by the Motion Picture Association of American ("MPAA") and the Oppositions filed by Philips Electronics of North America Corporation ("Philips") and the American Antitrust Institute ("AAI"), the 4C Entity, LLC ("4C") makes the following points and respectfully requests that the Commission approve 4C's CPRM-Video technology for use as an authorized secure recording method.

4C appreciates MPAA's support for CPRM-Video and responds the specific points raised in MPAA's Response, as follows:

- Existing legal principles can deal with the content provider/broadcaster liability issues that MPAA raised in the context in which the broadcast flag results in the use of CPRM video to record content containing the broadcast flag.
- Each 4C Founder has executed a 4C license agreement obligating the Founder to comply with 4C compliance and robustness rules equivalently to any other Adopter licensee of the 4C technology.
- 4C sees no disagreement with MPAA over the issues raised in their points for clarification, although some items do not, in 4C's view, require changes to 4C's license or compliance rules.

Notwithstanding the alarmist allegations made by Philips and AAI, both 4C's licensing approach as a whole and the specific provisions cited by Philips and AAI are reasonable and non-discriminatory. More specifically, in the statement below, 4C makes the following points:

- 4C has a proven and successful history of licensing its technology with a very large number of companies, who have entered the license in the evident belief that the license meets their expectations for licenses in this area. In light of Commission precedents on licensing policy, 4C's license certainly should be accepted here.
- Despite the assertions to the contrary, the non-assert provision found in the license is narrowly tailored, standard to the content protection field, and favorable to technological innovation.

I. Introduction and General Comments

These comments constitute the reply of the 4C Entity, LLC ("4C") to comments filed by the Motion Picture Association of America ("MPAA") and to the objections filed by Philips Electronics of North America Corporation ("Philips") and the American Antitrust Institute ("AAI").

At the outset, 4C wishes to go back to the goal of the Federal Communications

Commission ("FCC" or "Commission") action with regard to the "broadcast flag" and to
the technology certification process now underway, including through this docket. The
Commission adopted the broadcast flag regulations "[i]n order to advance the DTV
transition," because "the potential threat of mass indiscriminate redistribution will deter
content owners from making high value digital content available through broadcasting
outlets absent some content protection mechanism."

In order to accomplish the goal of sound content protection that encourages the DTV transition, 4C believes that there should be a variety of technologies, and transmission and recording media formats to which technologies are adapted, for manufacturers and consumers to choose from. This will create the marketplace competition that will drive not only consumer choice but technological innovation.

¹ In the Matter of Digital Broadcast Content Protection, MB Docket No. 02-230, 18 FCC Rcd. 23550 ¶ 1 (2003) (hereinafter Broadcast Flag Report and Order).

 $^{^{2}}$ Id. ¶ 4.

Fortunately, the Commission has before it an array of technologies that 4C hopes will allow the variety of marketplace options to be enabled.

4C is concerned, however, that if the Commission acts in support of objections related to certain specific licensing issues, this goal may be thwarted. Indeed, if the Commission agrees with objections filed by Philips and the AAI, manufacturers and consumers will be deprived of the most widely adopted technologies, thereby slowing the ability of the marketplace to adopt the protections that the Commission sought in the broadcast flag rulemaking, depriving consumers of the needed range of choices and competition among technology providers and manufacturers, and, in the process, potentially derailing the DTV transition, which is precisely the opposite result intended in the adoption of these rules.

4C does not expect that the Commission can simply accept all technologies merely because their sponsors submitted them and certified that they meet the Commission's requirements. Most importantly, technologies that do not provide the necessary protections should not be included on the list of technologies approved, or else the content protection purpose of these rules will be frustrated – and content companies may not provide their high value content for distribution through over-the-air broadcast services.

Further, the Commission has chosen to provide for manufacturers selecting among the approved technologies to be prevented from selecting technologies that are deemed to use unfair licensing practices, by stating its "expectation" that technologies

"will be licensed on a reasonable and non-discriminatory basis." As described in its initial filing and in specific response to the objections that have been filed with regard to certain 4C license terms, CPRM-Video is "licensed on a reasonable and non-discriminatory basis."

In this context, 4C urges the Commission to evaluate its certification submission from the following perspectives. First, no one has suggested, let alone filed in this proceeding, any concern over the technical capability and licensing enforcement mechanisms offered by 4C. MPAA has requested some clarification on a few points, but overall endorses CPRM as an effective means of providing the protections desired for broadcast flag content. Philips and AAI have not raised technological or enforcement concerns but have focused solely on a handful of objections related to license terms.⁴

Second, 4C is not in a position, nor should it be required, to modify its license terms and conditions in the manner proposed in the objections filed by Philips and AAI simply in order to qualify as an approved technology for broadcast flag purposes. 4C's technology and licensing regime were designed and deployed well before the broadcast flag was ever proposed in any context. As indicated in its initial filing, there are now well over 100 companies that have signed the 4C license for production and sale of

 $^{^3}$ Broadcast Flag Report and Order ¶ 55.

⁴ 4C notes that these parties have filed essentially the same objections with regard to at least two other technologies submitted to the Commission, even to the point of making incorrect references (such as the erroneous statement that CPRM-Video has been approved for use in relation to DVD video by DVD CCA, which could not be the case, of course, since DVD CCA licenses "never copy" content protection and CPRM-Video is used only with content for which an authorized copy may be made). *See* Philips'

products in commercial markets. If the Commission were to find that 4C's licenses must be modified in the manner proposed by Philips and AAI in order to qualify for approval by the Commission in this context, CPRM would simply not be available for use for broadcast flag content, because 4C is not in a position to make the changes proposed by the two objectors, since that would require license modifications from over 120 different existing 4C licensees. As the Commission well knows, the broadcast flag rules were adopted into and layer upon an environment in which 4C and other technology providers have already widely deployed technologies and licensing regimes designed to protect high value content distributed in protected forms. 4C also views this as a matter of fairness to its existing licensees.

If the Commission were to adopt the approach advanced by Philips here, the ironic effect would be to dramatically advantage Philips' own technology and proprietary optical disc recording format at the expense of consumer choice. While this would be very beneficial to Philips and its partners in offering their content protection and optical disc recording format,⁵ the impact on the Commission's own objectives would be to deprive consumers and manufacturers of the ability to choose 4C's technology (and, presumably, of the ability to use the other technologies subject to the same objections, DTCP and HDCP). Adopting Philips' point of view and rejecting CPRM as a potential

Opposition to CPRM-Video at 3, Philips' Opposition to DTCP at 3, Philips' Opposition to HDCP at 3.

⁵ In this regard, 4C notes that the Vidi technology is offered only for the Philips-led proprietary optical disc recording formats of +R and +RW. There is no indication that Vidi can or will be "ported" to other formats.

broadcast flag technology would have vastly greater adverse effects on the market than maintaining the license terms that Philips and AAI complain of.

There is no need to adopt Philips' point of view and entertain the consequent adverse effects. The terms that have been objected to by Philips and AAI, looking beyond this particular docket, have been accepted by over 120 different companies (including many companies that signed well before the broadcast flag proceeding even began as well as other companies that have signed since this proceeding began a year ago). If any 4C licensee were concerned about the issues raised by Philips, Philips surely would have found such licensee(s) and brought their concerns to the attention of the Commission. That neither Philips nor AAI identified such a licensee, or even alleged that one exists, devalues their allegations here.

II. Response to MPAA Comments⁶

A. Obligations on Content Providers, Broadcasters, Consumers, and Others

MPAA seeks a declaration from 4C that the unlicensed content providers, broadcasters, consumers and others will not be liable to 4C in the case where content with the broadcast flag results, through operation of a product incorporating a Covered Demodulator and CPRM Video technology, in the use of CPRM Video to record content containing the broadcast flag. 4C believes that, under well-accepted principles of licensing law, the licenses extended under the 4C Agreement would extend to benefit

⁶ 4C does not respond in this document to MPAA's request for modification of 4C compliance rules with regard to detection and response to CGMS-A and/or Macrovision's technology in unprotected analog inputs to 4C licensed recorders, because this request is clearly beyond the scope of this proceeding.

content or broadcast participants to the extent that a consumer uses a CPRM implementation provided by a CPRM licensee. 4C also notes that the mere insertion of the broadcast flag, in conformance with the ATSC standard and consistent with the Commission's regulations, where the presence of that flag may cause the use of none, one, or all of the Commission's approved technologies is a different situation from one in which the insertion of particular codes triggers the use of an individually identifiable technology or from one in which a contract between a content provider and a content distributor requires the distributor to ensure that a particular technology is used to protect the content subject to the contract.

B. Terms of 4C License Application to 4C Founders

4C hereby confirms that each of its Founders has executed a 4C license agreement obligating each "to comply with compliance and robustness rules of the 4C CPRM license agreement equivalently to any other Adopter licensee of the 4C CPRM technology." 4C also notes that the only way for any party, including a Founder, to obtain the keys necessary to make products that interoperate with 4C Licensed Products is to obtain those keys from 4C itself and that keys are supplied by 4C only pursuant to the 4C license agreements (including the compliance and robustness obligations associated with them).

⁷ MPAA's Response at 5.

C. Clarifications

- 1. Section 1.2. 4C understands the existing Section 1.2 already to mean what MPAA has requested, without need for amendment.⁸
- 2. Expiration Information. 4C has proposed to adopt modifications to its expiration information provisions to clarify that expiration via 4C Video content as well as 4C Audio content is enabled. The revision will be made without regard to whether the Commission approves CPRM Video in this proceeding.
- 3. 4C agrees to clarify that change management, enforcement and expiration rights to apply to content providers that execute the 4C Digital Video Content Participant Agreement, again without regard to whether the Commission approves CPRM Video in this proceeding.
- 4. 4C acknowledges that MPAA has identified an issue that may be appropriate for multi-party evaluation and possibly standardization. To the extent that this is the case, and such evaluation and standardization activities proceed, 4C will participate in good faith with other relevant parties. We note that the issue does not involve the revocation processes relevant to CPRM-Video.

MPAA's Response at 5.

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⁸ In its Response, MPAA suggests that

Section 1.2 of Exhibit 4 of the 4C CPRM license should be clarified to ensure that "defeating" functions may not be applied to uncompressed video so as, for example, to permit the stripping of CCI indicating EPN in such content.

III. Response to Philips and AAI Comments

In order to place these objections in context, it may be useful to review what "reasonable and non-discriminatory" means in the context of licensing for technologies subject to some form of FCC regulation. The phrase has been used in a number of contexts – primarily where parties had no choice but to use the particular technology being licensed – but has not been defined at any time and has not been the subject of any reported decision by the Commission or court interpreting the meaning of the phrase in any particular context. In prior Commission uses, the term "reasonable" has generally been associated with "low" or "no" cost licensing. Prior Commission decisions do not address "reasonableness" as to other terms or even as to terms as a whole. In 4C's case, the fact that scores of companies have signed the license attests to its reasonableness. In any event, the propriety of the various questioned terms is set forth below.

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⁹ See Amendment of Part 73 of the Commission's Rules and Regulations (Radio Broadcast Services) to Provide for Subscription Television Service, 3. F.C.C. 2d 1, FCC 66-268, Apx. C (Mar. 21, 1966) (stating that "the availability of broadcast equipment and radio apparatus meeting performance standards established by the Commission's rules and regulations will not be prejudiced by unreasonable royalty or licensing policies of patentholders"); see also Advanced Television Systems and Their Impact Upon the Existing Television Broadcast Service, 11 FCC Rcd. 17, 771 ¶ 54 (1996) (discussing the ANSI patent policies, the Commission noted that "the proponents agreed to make any relevant patents they owned available either free of charge or on a reasonable, nondiscriminatory basis and we stated that we intended to condition selection of a DTV system on such commitments.").

The term "non-discriminatory" has also not been defined, but we note that at least one license with a non-assert identical (in at least all material respects) to that used by 4C has been very recently found by the Commission to be "non-discriminatory". ¹⁰

So, if the tests are whether 4C licenses its technology at low cost and whether its license is non-discriminatory in the same manner as the Commission recently found the HDCP license, the answer is clear – the 4C license is "reasonable and non-discriminatory." With regard to 4C's fees, other than a couple of points made by Philips (and addressed below), no party has expressed any concern about the costs imposed by 4C, and 4C has represented, in this context and elsewhere, that the fees were set at a level intended to permit the recovery of the on-going license and key administration costs and at least some of the costs of the Founders in developing and maintaining the technology and adapting it to various recording formats. The 4C fees are also in line with the fees charged for HDCP and found by the Commission to be non-discriminatory. ¹¹

Compatibility Between Cable Systems and Consumer Electronics Equipment, PP Docket No. 00-67, 18 FCC Rcd. 20,885 ¶ 25 (2003) (FCC 03-225) (hereinafter Plug and Play Order).

¹⁰ In the Plug and Play Order, the Commission addressed concerns of Genesis Microchip: (1) that the patents underlying DVI and HDMI interface specifications and the HDCP content protection technologies have not been fully vetted; and (2) whether the associated licenses are offered on non-discriminatory terms with stable and certain license fees. In response to these concerns, the Commission stated:

Although the DVI, HDMI and HDCP specifications did not result from a formal standard setting process, the technology underlying these specifications is widely available in the marketplace today. Further, the adopter agreements for these technologies are freely offered on non-discriminatory terms.

¹¹ *Id*.

Consequently, based on its prior approach to the use of the term "reasonable and non-discriminatory," 4C believes that the Commission has more than enough information and background to find that 4C's technology is offered in licenses on a "reasonable and non-discriminatory basis" without addressing any of the comments as to specific provisions.

Nevertheless, 4C provides the following responses to Philips' and AAI's comments.

As an overall matter, 4C has two comments. First, the Philips and AAI comments reflect a misunderstanding of the nature of the 4C licenses. Philips and AAI's comments treat the 4C license as a patent pool. This is not accurate, since the license actually is for a new technology that was jointly developed by the Founders in the context of the activities of 4C. Without that joint activity, the "product" that is licensed would not exist. Further, without specific products that are supplied by 4C itself – namely, the keys that are generated by and supplied by 4C Entity, LLC – products made according to the Specifications would not be functional, and would certainly not interoperate with other 4C licensed products. So, the legal analysis of the nature of the licenses provided is flawed from the outset.

Second, since the non-assertion clause of the 4C agreement is the focus of much of the objection from Philips and AAI, it is important to understand that the potential antitrust concern with non-assertion clauses is not present in the 4C context. The normal concern is that such a clause may inhibit innovation (i.e., if a licensee knows that it has to give up the fruits of its invention, it will not undertake to develop new or improved

technologies). The 4C provision causes no such concern, since Philips (were it to become a 4C licensee) and other 4C licensees have total freedom to operate outside the scope of the very narrow non-assert applicable to "necessary" claims regarding the implementation of 4C technology. Innovation is not inhibited in the least.

With regard to the specific points made by Philips and AAI:

(1) "Forfeiture" of IP rights. 4C's license requires a licensee to agree not to assert its patent claims "within the bounds of the scope of use set forth in Section 2.4 of this Agreement that are necessarily infringed only by those portions of Evaluation/Development Licensed Products, Evaluation/Development Licensed Components, Production/Sale Licensed Products and Production/Sale Licensed Components which implement the 4C Technology solely to the extent disclosed with particularity in the Specifications." The provision goes on to call out numerous exclusions to what are considered "necessary claims," including "claims relating to other copy protection" and "claims which could be practiced in an implementation ... in compliance with the Specifications where an alternative implementation exists that would not infringe such claim." This in no way causes a "forfeiture" of intellectual property. As the quoted material indicates, the 4C non-assert is very carefully limited to those situations that are within the term "necessary claims," which is very carefully defined and limited so as to focus solely on the 4C Technology as disclosed in the 4C Specifications and only as to claims that are "necessary" with regard to such technology. Any claim

¹² See CPRM-Video Certification, Exh. 1 § 2.7.

 $^{^{13}}$ *Id*.

related to an improved implementation or an alternative approach to implementation of 4C Technology would not be covered, as such would not be "necessary" for the implementation of 4C Technology. In addition, the scope of the necessary claims non-assert is strictly related to the scope of the license grant, meaning the non-assert even for necessary claims does not extend to the development and implementation of any other form of content protection (or any other form of technology), since it would not relate, in that context, to 4C Technology implementation. Indeed, had Philips signed the 4C license, nothing in the 4C license would have inhibited (much less prevented) Philips in its development of Vidi technology (notwithstanding its apparent similarity to CPRM).

(2) Expansion of non-assert. Although the non-assert relates solely to 4C Technology as that technology is disclosed with particularity in the 4C Specifications, Philips has expressed concern that 4C retains the right to modify the Specifications and, hence, to modify the scope of the non-assert. This concern is unfounded. CPRM technology uses a basic set of technological tools, and those tools are described in specification documents that are "general" to all CPRM applications (and all CPPM applications as well). The general specifications are now, and have been for some time, at version 1.0 and are subject to very severe restrictions on any modifications. The "mapping" of the technology to different forms of recordable media does not involve separate technology, but rather involves use of the same technology in the context of the new form of media. So, there is no expansion of the non-assert in terms of the technology covered, and the only extension may be to enable the use of CPRM on new forms of media to which CPRM technology is applied – an "expansion" that is fully understood from the outset and about 4C licensee is not aware of any concern from any

licensee. Indeed, enabling CPRM to be used on multiple media formats directly benefits manufacturers and most importantly consumers, and promotes the transition to digital that the Commission seeks

(3) No patent disclosure. Since the licensing (and non-assert) are on the basis of "necessary claims," no particular patents have been disclosed, either in the license or in this proceeding. This is, again, a standard practice in many patent (and other intellectual property) license situations and does not create any necessary issues with regard to the licensing. Further, the licensing of "necessary claims" rather than providing a comprehensive list of specifically identified patent claims provides licensee benefit in the form of eliminating any need for conflict in the determination of whether a licensee has everything it needs to practice the technology. Indeed, even the Vidi technology submitted by Philips and HP relies on "necessary claims" as the basis of what is a non-assertion covenant from Philips and HP. To 4C's understanding, only one submission to the Commission in this round of technology certifications actually included any patent list.

(4) <u>Cost recovery level of rates</u>. 4C's license agreement requires that 4C sets its annual administrative fees at a level designed to recover on-going administrative expenses and to reduce those fees whenever it determines that funds are being recovered at a rate higher than necessary for administrative expenses.¹⁴ 4C's unit fees were set initially by the Founders to allow them to recover some measure of their costs for designing, documenting, maintaining the technology and mapping it to new forms of

¹⁴ See CPRM-Video Certification, Exh. 1 § 4.1.

media. To date, as the Founders understood when undertaking to form 4C, the unit fee recovery has fallen far short of the level of expenditure by each of the Founders, and there is no realistic expectation that the fee levels will ever reach the Founder's expenditure levels. (4C notes that having to identify all relevant patents and patent claims covered by the 4C license, and ensure that only "necessary" claims are identified, would add considerably to the cost to Founders and licensees.)

(5) Comparable non-asserts. As 4C indicated in its initial filing, there are a number of situations in which non-assertion clauses identical, or essentially equivalent, to the clause in the 4C agreement. Philips commented that these other contexts did not involve a "government mandate". 4C's point, however, was simply that the Commission should be aware that the non-assertion approach taken by 4C is a common one in the context of content protection technologies and that this fact is relevant to the question of whether 4C's approach is "reasonable." The existence or lack of a government mandate does not seem particularly relevant to that point – and, in this context, the only "mandate" is that manufacturer detect the broadcast flag and prevent the indiscriminate redistribution of flagged content consistent with the compliance and robustness obligations set out in the Commission's rules. That mandate may be satisfied through proprietary schemes, and/or in addition, by electing at its option to use none, one, or all of a list of technologies (or propose a new one of their own). Simply, no manufacturer is required to use 4C's technology.

¹⁵ Philips' Opposition at 19.

(6) Licensee understanding of non-assert context. 4C supports principles of consumer choice, convenience and technology interoperability. With those principles and goals in mind, 4C's licenses have, from the very beginning, been crystal clear that the technology (i) was designed to be and would, in fact, be adapted to a variety of different forms of recordable media (ii) that CPRM is used in relation to both audio and audio-visual content, and (iii) that CPRM and CPPM use the same technological tools and represent fundamentally the same technology core mapped for synergistic and related purposes. The core technology that a prospective licensee would need to evaluate to determine whether it has IP that will be subject to the non-assert is the same today as it was when 4C licensing began four years ago and will remain the same into the future. The fact that this system would now be approved to record "broadcast flag" content is not in any way inconsistent with these understandings.

(7) Approval of other recording technologies. As a means of ensuring protections that are provided by CPRM-Video, 4C requires that content decrypted from CPRM-Video must be delivered to a permitted output (analog and protected digital) or directed to another recording method that has been approved by 4C as secure. Philips argues that this approval right means that 4C can control the non-4C functioning of a multi-function product and that 4C should be expected to unduly delay any request for a technology to be approved as a secure recording method. Both of these involve natural elements of the license-based content protection approach, not specific to 4C at all and do not reflect real world problems. In fact, 4C has responded promptly to requests for approval of outputs and recording methods, as it has responded to requests for adapting CPRM to various forms of recordable media. In relation to Philips, 4C is prepared to

undertake a prompt review and response in the event that the proprietors of Vidi technology wish to have their technology listed as an approved secure recording technology. In the event that the FCC approves Vidi in this context, and given that MPAA expressed their basic support for the technology, 4C sees no reason why Vidi would not be approved promptly, based on the currently available information.¹⁶

(8) <u>Discrimination between IT and CE devices</u>. Philips complains that 4C permits certain outputs for computer monitor display purposes that are not permitted to be used with CE products. 4C notes that the very same distinction is made in the Commission's own regulations for outputs with respect to broadcast flag content. ¹⁷ So, there should not be a problem with 4C's compliance rules in this regard. In any event, the reason for the distinction is that these computer monitor outputs are needed to enable legacy computer monitors to display protected video content. There was no such legacy issue with regard to televisions and other CE-based monitors, which have other alternative inputs available to allow them to display protected video content.

¹⁶ 4C notes that when Philips previously requested action by 4C, 4C moved promptly and invested very substantial amounts of time and human resources to creating a specification for application of CPRM to +RW. Indeed, it has been 4C's understanding that the only reason the specification has not yet been finalized is that there is a need to document one final point in the +RW specification, and that 4C is dependent on Philips for accomplishing that documentation in the +RW specification and then conveying the information to allow 4C to incorporate the corresponding information in our specification. In this proceeding, Philips has referred to an incompatible disc problem The only incompatibility that 4C was ever aware of was the fact that CPRM is an encryption technology and Philips, for many months, indeed years, was adamant in its opposition to consumer copying using encryption. Philips seems not to have any further problem with the use of encryption for consumer recording, however, and so 4C is at a loss as to what the "disc incompatibility" may be with regard to CPRM and +RW.

¹⁷ See 47 C.F.R. §§ 73.9003(a)(7), 73.9004(a)(6).

(9) Specific media type approval. Philips argues that if the Commission approves CPRM-Video, it should do so only with respect to the media formats to which CPRM-Video is currently applied. There is no basis for this suggestion. One of the important features of CPRM-Video is its extensibility to multiple recordable media formats. There is no sound reason to deny consumers the right to use new recordable formats to which CPRM-Video may be applied in the future and to require the FCC to engage in a new reiterative proceeding. So long as the essential attributes of CPRM-Video remain as they are in the 4C's current submission to the Commission, there is no reason to fear that broadcast flag content will not be as protected in new formats as it will be in the current formats.

should reject CPRM-Video due to complaints that Philips has about the 4C rules regarding CPRM-Audio. 4C sees no relevance of the 4C CPRM-Audio rules to the Commission's current evaluation process. In any event, the particular points of concern to Philips relate to an audio content protection architecture that is fully consistent with the architecture developed in a multi-industry forum in which Philips was an active participant, the Secure Digital Music Initiative ("SDMI"). There does not seem to be any particular point in engaging in an extended argument about audio content protection in this current proceeding, but the Commission should be aware that 4C is fully supportive of its audio content protection system and, in the appropriate forum, is happy to debate the merits of its protection system.

For all the foregoing reasons, as well as the reasons contained in the 4C Certification filed on March 1, 2004, 4C respectfully requests that the FCC approve CPRM-Video as an approved digital content protection recording method pursuant to the "Broadcast Flag" regulations, 47 CFR §§ 73.9000-9008. Please contact the counsel listed below with any additional questions you may have.

Respectfully submitted,

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